Federal Budget 2016

Key superannuation proposals in this budget:

- Retention of the Low Income Superannuation Contribution (LISC) - renamed the Low Income Superannuation Taxation Offset (LISTO)
- A new cap on lifetime transfer of $1.6 million to retirement
- Changes to transition to retirement and changes to contributions caps from July 2017
- Changes to after-tax contributions effective immediately

The Federal Budget on 3 May 2016 included some major superannuation changes to ensure fairer sharing of tax benefits. The key benefit for lower-income earners is the retention of the LISC, now the LISTO, effectively meaning that $500 will continue to be paid to low-income members’ accounts.

Higher-income earners will be affected by changes to caps on both concessional and non-concessional contributions, and a limit to transfers to income streams.

There are opportunities for those with broken work patterns to make catch up concessional contributions.

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Federal Budget 2016: Impact on superannuation

1. Government contributions for low-income earners

If you earn less than $37,000 a year, the government contributes up to $500 to your super account under the Low Income Super Contribution (LISC). This payment is effectively a refund of the 15% tax you have paid on your super contributions. The LISC scheme was due to end in 2017, but the government has continued the payment under a new scheme called the Low Income Superannuation Tax Offset (LISTO).

The Australian Tax Office will assess whether you are eligible for the LISTO based on your adjusted taxable income, and they will let your super fund know whether you will receive the payment each year.

2. Removal of aged-based contribution rules

From 1 July 2017, the government will make it easier for people aged 65 to 74 to contribute to super by removing the aged-based contribution rules as follows:

- If you are aged 65 to 74, you will no longer need to meet a work test before making voluntary or non-concessional (after-tax) contributions
- From 1 July 2017, you will also be able to make contributions to a spouse aged under 75 without the need for your spouse to meet a work test.

What does this mean for you?

You will have flexibility to continue working or choosing to retire, with no age-related barriers on contributing to your super.

3. Tax offsets for spouse contributions

From 1 July 2017, if your partner earns under $37,000 p.a. and you make a contribution to their super of at least $3,000, you may be eligible for a maximum tax offset of up to $540 ($3,000 x 18%). The offset reduces as your partner’s income increases above $37,000 p.a. and completely phases out at $40,000 p.a.

Currently, the maximum offset of $540 ($3,000 x 18%) is payable if your partner’s annual income is $10,800 or under and you make a super contribution of $3,000, or more. It phases out when your partner’s income reaches $13,800.

Your partner can be either married or de facto.

4. Changes to concessional (before-tax) contributions

Annual cap

The government has announced that it will reduce the annual cap on concessional (before-tax) contributions to $25,000 for everyone from 1 July 2017. This applies to both SG and salary sacrifice contributions, which means the total of these two types of contributions will count towards the cap.
Catch-up concessional contributions

The catch-up provisions will allow people with account balances up to $500,000 to make ‘catch-up’ concessional superannuation contributions. This also applies to defined benefit schemes.

What is the change and who will be affected?

The people most affected will be those over the age of 50 who are making additional concessional contributions to their super or those who have higher incomes. The government estimates that people with incomes around $210,000 and average superannuation balances around $760,000 will be affected.

If you have a balance less than $500,000, you can roll over unused concessional contribution amounts under the annual cap of $25,000 for up to five years. This means if you make no contributions for three years, in the fourth year your concessional contributions cap is $100,000. Your annual cap cannot exceed $125,000 because caps cannot be carried forward for more than five prior years.

Your unused annual concessional contribution cap amounts accrue from 1 July 2017.

The annual concessional contributions caps are currently $30,000 for people under the age of 50, and $35,000 for people aged 50 or over during the year.

5. Transition to retirement income streams

From 1 July 2017, if you are in a transition to retirement income stream (TRIS) earnings on the assets supporting the TRIS will generally be taxed at 15%, regardless of when you started the account.

6. Introducing a transfer balance cap of $1.6 million

From 1 July 2017, the government will introduce a $1.6 million cap on the total amount of superannuation that can be transferred into a tax-free retirement account:

- The cap will be indexed in $100,000 increments in line with the Consumer Price Index, similar to the treatment of the age pension assets threshold.
- Superannuation savings accumulated over the cap can remain in an accumulation account, where the earnings will generally be taxed at 15%.
- A proportionate method, which measures the percentage of the cap previously used, will determine how much remaining cap you have available at any point in time. For example, if you have previously used up 75% of your cap, you will have access to 25% of the current (indexed) cap.
- Subsequent fluctuations in retirement accounts due to earnings growth or pension payments are not considered when calculating the unused cap.

If you breach the cap, you will be subject to a tax on both the amount in excess of the cap and the earnings on the excess amount.
Who will be affected?

If your retirement account balance is over $1.6 million at 1 July 2017, you will need to either:

- transfer the excess back into an accumulation superannuation account, or
- withdraw the excess amount from your retirement account.

Regulations are required to clarify the effect of indexation on the $1.6 million lifetime cap in relation to a second transfer.

7. Introducing a lifetime non-concessional cap

From Budget night on 3 May 2016, the government will introduce a $500,000 lifetime cap on non-concessional (after-tax) contributions. This will take into account all non-concessional contributions made since 1 July 2007.

The cap will apply to people aged up to age 75, and it will be indexed in $50,000 increments in line with wages.

Personal contributions where a tax deduction has been claimed are concessional (before-tax) contributions and count towards the $25,000 concessional cap after 1 July 2017.

Currently, you can make non-concessional contributions of $180,000 a year (or $540,000 every three years if you are under 65).

Who will be affected?

If you have exceeded the cap prior to 3 May 2016, you will have used up your lifetime cap but you will not be required to take the excess out of the superannuation system.

- If you make contributions that cause you to exceed your cap, you will be notified by the ATO to withdraw the excess from your account.
- If you choose not to withdraw the excess, you will be subject to the current penalty arrangements for excess contributions.
- If you have already made non-concessional contributions up to $500,000 since 1 July 2007, you will not be able to make additional contributions, unless indexation increases the cap.

If you are over 65 and were previously restricted to $180,000 in annual non-concessional contributions, you may have additional flexibility depending on contributions made since 1 July 2007.
8. Additional contributions tax on higher-income earners

Currently, people with an annual income of over $300,000 pay an additional 15% tax on the amount of concessional contributions that push the income above the $300,000 threshold. This tax is known as Division 293 tax and is calculated by the ATO when your tax return is completed. From 1 July 2017, this threshold will be reduced to $250,000.

For example, currently, if you have a taxable income of $280,000—which has been reduced by salary sacrifice contributions of $25,000—you will pay an additional 15% tax on contributions of $5,000, which is the portion of the contribution above $300,000. From 1 July 2017, you will pay the additional 15% tax on the entire $25,000 as all the concessional contributions will be above the new threshold of $250,000.

9. Contributions for people who earn only some of their income from salary and wages

From 1 July 2017, anyone up to age 75 will be able to claim a tax deduction for personal contributions regardless of your work situation - up to the new concessional contribution cap of $25,000, subject to 15% contributions tax. This is particularly important for self-employed people.

If you are a member of a defined benefit scheme, you will not be eligible to claim an income tax deduction for contributions to these funds. However, you may claim a deduction if you make a contribution to another non-defined benefit fund.

10. Changes to defined benefit schemes

If you are a member of a defined benefit fund, the government has also announced changes which broadly replicate the proposed $1.6 million transfer balance cap and the $500,000 lifetime cap for defined benefit funds.

More information on the changes to defined benefit schemes can be found at:

11. Income tax bracket change

From 1 July 2016, if you earn over $87,000 p.a., any amounts between $87,000 and $180,000 will be taxed at 37%.

For the 2015-16 year, the threshold above which the 37% tax rate for individuals applies is $80,000.

The changes outlined in the Federal Budget depend on the passing of legislation. Further consultation between government and the superannuation industry will be conducted to clarify details of the changes.

To view the full budget papers, go to Treasury’s website at www.treasury.gov.au

This summary is an analysis of the budget proposals only. Any information or advice it contains is general and does not take into account your specific objectives, financial situation or needs. FSS Trustee Corporation ABN 11 118 202 672, AFSL 293340, the trustee of the First State Superannuation Scheme ABN 53 226 460 365.

Financial planning advice is provided by First State Super Financial Services Pty Ltd ABN 37 096 452 318, AFSL 240019.